

# **Occidental College**

**Los Angeles, California 90041**

**EIN 951667177**

**Report on Audited Financial Statements  
and Federal Awards Audit Reports**

**For the Year Ended June 30, 2007**

**Occidental College**  
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**For the Year Ended June 30, 2007**

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**Report of Independent Auditors**

To the Board of Trustees  
Occidental College

In our opinion, the accompanying statement of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Occidental College (the "College") at June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2007 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended June 30, 2007, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

*PricewaterhouseCoopers LLP*

November 12, 2007

**Occidental College**  
**Balance Sheets**  
**As of June 30, 2007 and 2006**

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	<b>2007</b>	<b>2006</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 4,382,491	\$ 1,742,722
Assets whose use is limited	20,645,531	42,686,769
Student accounts receivable, less allowance for doubtful accounts of \$237,059 and \$163,034 at June 30, 2007 and 2006, respectively	366,603	288,120
Contracts and grants receivable	1,305,298	726,885
Student notes receivable, less allowance for doubtful accounts of \$2,378,076 and \$2,265,028 at June 30, 2007 and 2006, respectively	15,930,593	16,050,105
Contributions receivable, net	2,165,421	2,133,754
Inventories	536,731	523,412
Trust deeds receivable	2,785,875	2,924,394
Investments	434,191,714	365,347,669
Property and equipment, net	105,677,645	82,138,879
Other assets	1,378,779	2,366,436
Deposits with bank trustees	150,221	137,852
Bond issuance costs	1,265,670	1,312,546
Assets held in trust by others	<u>14,920,526</u>	<u>12,588,806</u>
Total assets	<u>\$ 605,703,098</u>	<u>\$ 530,968,349</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 12,098,372	\$ 9,481,910
Student deposits and deferred revenue	4,578,339	3,255,067
Bonds payable	70,531,000	70,543,000
Bond premium, net	1,971,464	2,044,481
Government loans payable	4,167,567	4,167,567
Annuities payable	15,372,650	12,188,077
Other liabilities	<u>2,629,194</u>	<u>2,711,835</u>
Total liabilities	<u>111,348,586</u>	<u>104,391,937</u>
Commitments and contingencies (Note 10)		
<b>Net assets</b>		
Unrestricted	340,209,720	286,989,486
Temporarily restricted	20,700,288	20,192,207
Permanently restricted	<u>133,444,504</u>	<u>119,394,719</u>
Total net assets	<u>494,354,512</u>	<u>426,576,412</u>
Total liabilities and net assets	<u>\$ 605,703,098</u>	<u>\$ 530,968,349</u>

The accompanying notes are an integral part of these financial statements.

**Occidental College**  
**Statements of Activities**  
**For the Year Ended June 30, 2007 (with comparative totals for the year**  
**ended June 30, 2006)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total	2006 Total
<b>Operating Revenues</b>					
Tuition and fees	\$ 59,876,839	\$ —	\$ —	\$ 59,876,839	\$ 56,058,197
Room and board	11,220,028	—	—	11,220,028	10,905,145
Less: Financial assistance	<u>(20,645,836)</u>	<u>—</u>	<u>—</u>	<u>(20,645,836)</u>	<u>(20,121,691)</u>
Net student revenues	50,451,031	—	—	50,451,031	46,841,651
Private gifts, grants, and contracts	10,139,775	1,273,458	13,514,492	24,927,725	19,717,513
Federal and state grants and contracts	2,543,305	—	—	2,543,305	2,537,275
Investment income designated for operations	14,141,594	—	—	14,141,594	13,101,322
Other	4,676,517	1,889	—	4,678,406	4,531,577
Net assets released for operations	<u>245,530</u>	<u>(245,530)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total revenues	<u>82,197,752</u>	<u>1,029,817</u>	<u>13,514,492</u>	<u>96,742,061</u>	<u>86,729,338</u>
<b>Operating Expenditures</b>					
Academic program	39,703,891	—	—	39,703,891	38,146,800
Co-curricular program	19,910,834	—	—	19,910,834	18,437,221
Public service	3,979,675	—	—	3,979,675	4,686,525
Marketing	8,693,895	—	—	8,693,895	8,408,625
Institutional support	<u>6,452,139</u>	<u>—</u>	<u>—</u>	<u>6,452,139</u>	<u>7,110,381</u>
Total expenditures	<u>78,740,434</u>	<u>—</u>	<u>—</u>	<u>78,740,434</u>	<u>76,789,552</u>
Operating income	3,457,318	1,029,817	13,514,492	18,001,627	9,939,786
<b>Other Changes in Net Assets</b>					
Net assets released for capital expenditures	1,573,038	(1,573,038)	—	—	—
Present value adjustment for annuities	(152,249)	(1,074,167)	(2,660,104)	(3,886,520)	(548,568)
Change in fair market value of assets held in trust by others	—	771,462	395,776	1,167,238	152,736
Realized and unrealized gains, net of allocation to operations and net of investment expense of \$3,248,487 for the year ended June 30, 2007	48,435,226	1,357,719	2,702,810	52,495,755	32,350,026
Redesignation of net assets	<u>(93,099)</u>	<u>(3,712)</u>	<u>96,811</u>	<u>—</u>	<u>—</u>
Total other changes in net assets	<u>49,762,916</u>	<u>(521,736)</u>	<u>535,293</u>	<u>49,776,473</u>	<u>31,954,194</u>
Cumulative effect of change in accounting principle	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,711,835)</u>
Changes in net assets	53,220,234	508,081	14,049,785	67,778,100	39,182,145
Net assets, beginning of year	<u>286,989,486</u>	<u>20,192,207</u>	<u>119,394,719</u>	<u>426,576,412</u>	<u>387,394,267</u>
Net assets, end of year	<u>\$340,209,720</u>	<u>\$ 20,700,288</u>	<u>\$133,444,504</u>	<u>\$494,354,512</u>	<u>\$426,576,412</u>

The accompanying notes are an integral part of these financial statements.

**Occidental College**  
**Statement of Activities**  
**For the Year Ended June 30, 2006**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating Revenues</b>				
Tuition and fees	\$ 56,058,197	\$ —	\$ —	\$ 56,058,197
Room and board	10,905,145	—	—	10,905,145
Less: Financial assistance	<u>(20,121,691)</u>	<u>—</u>	<u>—</u>	<u>(20,121,691)</u>
Net tuition revenue	46,841,651	—	—	46,841,651
Private gifts, grants, and contracts	10,756,854	3,578,855	5,381,804	19,717,513
Federal and state grants and contracts	2,537,275	—	—	2,537,275
Investment income designated for operations	13,101,322	—	—	13,101,322
Other	<u>4,515,034</u>	<u>4,391</u>	<u>12,152</u>	<u>4,531,577</u>
Total revenues	<u>77,752,136</u>	<u>3,583,246</u>	<u>5,393,956</u>	<u>86,729,338</u>
<b>Operating Expenditures</b>				
Academic program	38,146,800	—	—	38,146,800
Co-curricular program	18,437,221	—	—	18,437,221
Public service	4,686,525	—	—	4,686,525
Marketing	8,408,625	—	—	8,408,625
Institutional support	<u>7,110,381</u>	<u>—</u>	<u>—</u>	<u>7,110,381</u>
Total expenditures	<u>76,789,552</u>	<u>—</u>	<u>—</u>	<u>76,789,552</u>
Operating income	962,584	3,583,246	5,393,956	9,939,786
<b>Other Changes in Net Assets</b>				
Net assets released for capital expenditures	1,482,606	(1,482,606)	—	—
Present value adjustment for annuities	(571,394)	636,200	(613,374)	(548,568)
Change in fair market value of assets held in trust by others	—	198,943	(46,207)	152,736
Realized and unrealized gains, net of allocation to operations and net of investment expense of \$2,443,659 for the year ended June 30, 2006	30,037,665	732,046	1,580,315	32,350,026
Redesignation of net assets	<u>(174,646)</u>	<u>174,646</u>	<u>—</u>	<u>—</u>
Total other changes in net assets	<u>30,774,231</u>	<u>259,229</u>	<u>920,734</u>	<u>31,954,194</u>
Cumulative effect of change in accounting principle	<u>(2,711,835)</u>	<u>—</u>	<u>—</u>	<u>(2,711,835)</u>
Changes in net assets	29,024,980	3,842,475	6,314,690	39,182,145
Net assets, beginning of year	<u>257,964,506</u>	<u>16,349,732</u>	<u>113,080,029</u>	<u>387,394,267</u>
Net assets, end of year	<u>\$ 286,989,486</u>	<u>\$ 20,192,207</u>	<u>\$ 119,394,719</u>	<u>\$ 426,576,412</u>

The accompanying notes are an integral part of these financial statements.

**Occidental College**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2007 and 2006**

	2007	2006
<b>Cash flows from operating activities</b>		
Changes in net assets	\$ 67,778,100	\$ 39,182,145
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	4,474,241	4,545,551
Gifts of stock and securities	(5,876,670)	(3,961,523)
Cumulative effect of change in accounting principle	-	2,711,835
Net unrealized and realized gains on investments	(52,495,755)	(33,889,775)
Contributions restricted for long-term investment	(13,514,492)	(5,381,804)
Changes in assets and liabilities		
Student accounts receivable, net	(78,483)	155,834
Contracts and grants receivable	(578,413)	135,508
Student notes receivable, net	119,512	63,894
Contributions receivable, net	(31,667)	157,921
Inventories	(13,319)	(21,727)
Other assets	987,657	(1,765,842)
Accounts payable and accrued expenses	2,616,462	(495,222)
Student deposits and deferred revenue	1,323,272	(664,075)
Other liabilities	(82,641)	-
Net cash provided by operating activities	<u>4,627,804</u>	<u>772,720</u>
<b>Cash flows from investing activities</b>		
Decrease in trust deeds receivable	138,519	230,215
Change in assets whose use is limited	22,041,238	37,239
Purchases of investments	(110,593,401)	(56,271,177)
Sales of investments	104,126,402	52,801,308
Purchases of property and equipment	<u>(28,039,148)</u>	<u>(9,180,220)</u>
Net cash used in investing activities	<u>(12,326,390)</u>	<u>(12,382,635)</u>
<b>Cash flows from financing activities</b>		
Contributions restricted for long-term investment	9,509,871	3,601,138
Deposits with bank trustees	(12,369)	56,278
Change in assets held in trust by others	(2,331,720)	67,264
Repayment of notes payable	-	(282,432)
Repayment of long-term debt	(12,000)	(57,000)
Increase in annuities payable	<u>3,184,573</u>	<u>1,054,274</u>
Net cash provided by financing activities	<u>10,338,355</u>	<u>4,439,522</u>
Net increase (decrease) in cash and cash equivalents	2,639,769	(7,170,393)
Cash and cash equivalents, beginning of year	<u>1,742,722</u>	<u>8,913,115</u>
Cash and cash equivalents, end of year	<u>\$ 4,382,491</u>	<u>\$ 1,742,722</u>
<b>Supplemental cash flow information</b>		
Cash paid for interest	<u>\$ 2,919,746</u>	<u>\$ 2,957,803</u>
Gifts of stock and securities	<u>\$ 5,876,670</u>	<u>\$ 3,961,523</u>
Unpaid fixed asset purchases	<u>\$ 1,595,945</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

# Occidental College

## Notes to Financial Statements

### June 30, 2007 and 2006

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#### 1. Operations and Summary of Significant Accounting Policies

##### **Nature of Operations**

Occidental College (the "College") is an independent, coeducational college of liberal arts and sciences, founded in 1887. Occidental College seeks to provide an education of high quality in the best tradition of the liberal arts, emphasizing thorough competence in a chosen field of study together with a broad understanding of our historical and cultural heritage and the relationships among fields of knowledge. The College is accredited by the Western Association of Schools and Colleges.

##### **Basis of Accounting and Reporting**

The accompanying financial statements of the College, a not-for-profit educational institution, have been prepared on the accrual basis of accounting in accordance with standards generally accepted in the United States of America and with the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Not-for-Profit Organizations*.

Revenues, gains, expenses and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the College and changes therein are classified and reported as follows:

##### **Unrestricted Net Assets**

Unrestricted net assets are comprised of assets which are for operating purposes or assets which are not subject to donor-imposed restrictions and are general in nature. Unrestricted net assets have been segregated into the following categories:

*Designated – Educational and general* – includes funds that are internally designated for operational or special use.

*Designated – Functioning as endowment* – includes certain gifts not otherwise restricted and Board designations of assets to function as endowment, realized and unrealized gains, and reinvested income on endowment funds unless restricted by the terms of the donor agreement.

*Designated – Student loan funds* – includes lending activity to students utilizing College resources designated for that purpose as well as funds intended for a general College loan program.

*Designated – Life income and annuity contracts* – the College has legal title to life income and annuity contracts and agreements, subject to life interests of the beneficiaries. No significant financial benefit is or can be realized until the contractual obligations are released.

*Designated – Renewal and replacement* – includes amounts internally designated for renewal and replacement of property and equipment.



**Occidental College**  
**Notes to Financial Statements**  
**June 30, 2007 and 2006**

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**1. Operations and Summary of Significant Accounting Policies (Continued)**

**Unrestricted Net Assets (Continued)**

*Invested in property and equipment* – includes property and equipment stated at cost or fair market value at the date of gift, less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives for land improvements (20 years), buildings and improvements (40 years), and equipment and library books (5-10 years). The College follows the policy of generally recording contributions of long-lived assets directly to unrestricted net assets. However, if the donor stipulates how long the assets must be used, the contributions are recorded as temporarily restricted support. Upon disposition of assets, the cost and related accumulated depreciation is removed with the resulting gain or loss recognized in unrestricted net assets.

**Temporarily Restricted Net Assets**

Temporarily restricted net assets are those assets whose use by the College is subject to donor-imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time. Such assets include certain charitable remainder unitrusts, pooled income funds, gift annuities, and certain pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted.

**Permanently Restricted Net Assets**

Permanently restricted net assets are those assets subject to donor-imposed stipulations that they be maintained in perpetuity by the College. Generally, the donors of these assets permit the College to use all or part of the investment return on these assets for unrestricted purposes. Such assets primarily include the College's permanent endowment, certain charitable remainder unitrusts, and loan funds established by outside donors.

**Revenues and Expenses**

Student tuition and fees are recorded as revenues in the period during which the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenues.

Contributions are reported as increases in the appropriate category of net assets, except contributions that the donor restricts where the restrictions are met within the same fiscal year, as these contributions are included in unrestricted net assets. Contributions other than cash are recorded at their fair market value or net realizable value at the date of gift.

Revenues from grants and contracts are exchange transactions and are recognized as allowable expenditures under such agreements as costs are incurred.

Revenues from sources other than contributions are reported as increases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases to the appropriate net asset category.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are met in the period in which the assets are acquired or placed into service.

**Occidental College**  
**Notes to Financial Statements**  
**June 30, 2007 and 2006**

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**1. Operations and Summary of Significant Accounting Policies (Continued)**

**Revenues and Expenses (Continued)**

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not contributions until the conditions on which they depend are substantially met. Unconditional promises to give are donor commitments where there is sufficient evidence they exist, verifiable documentation, no ambiguous conditions, and legally enforceable. If these contributions are to be received after a year and/or over a number of years, they are discounted at a rate equivalent with the long-term applicable federal rate ("AFR"). The discount is amortized and recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any. In addition, an allowance for uncollectible promises to give, based on past collection experience, is recorded.

The financial statements present expenses by functional classification in accordance with the overall educational mission of the College.

Depreciation expense is allocated directly based upon the nature of the underlying assets. Interest expense on external debt is allocated to the functional categories which have benefited from the proceeds. Plant operations and maintenance represents space-related costs that are allocated to the functional categories directly and/or based on the square footage occupancy.

**Cash and Cash Equivalents**

Cash and cash equivalents include short-term, highly liquid investments with a maturity of three months or less at the time of purchase. Cash and cash equivalents representing assets held as endowment and similar funds and assets held for annuity and life income payments are included in long-term investments. Cash and cash equivalents are reported at cost which approximates fair value.

The College has cash balances that periodically exceed the Federal Deposit Insurance Corporation limit of \$100,000 per depository bank.

**Assets Whose Use Is Limited**

Certain proceeds of the serial bonds (see Note 6) held by trustees are limited as to use in accordance with the requirements of the trust agreements. The worker's compensation bank account is also limited as to use in accordance with State of California and insurance requirements. The assets whose use is limited are comprised of cash and cash equivalents.

Assets whose use is limited are recorded at fair value.

**Occidental College**  
**Notes to Financial Statements**  
**June 30, 2007 and 2006**

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**1. Operations and Summary of Significant Accounting Policies (Continued)**

**Investments**

Investments are stated at fair value. The fair value of investments is based on quoted prices from national security exchanges, except for limited partnerships, mortgages, and venture capital which is based on information provided by external investment managers at the most recent valuation period date for the fiscal year-end. Real estate is stated at the lower of cost or fair value. Fair value for real estate is based on market appraisals. Market appraisals are obtained every four years unless a trend in the market warrants more frequent appraisals. Management monitors the activity of external investment managers and performs reconciliations and other procedures to assure that the valuations used in the financial statements are fairly stated. The College believes the carrying amounts of these investments are a reasonable estimate of fair value. Because the limited partnership investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material. Realized and unrealized gains and losses on investments are the difference between the fair market value and the cost basis of the investments. The net realized and unrealized gains and losses are reported in the statements of activities.

All investments of permanently restricted net assets and unrestricted net assets designated as endowment funds are carried in an investment pool unless special considerations or donor stipulations require that they be held separately.

Income on investments of permanently restricted net assets is recorded as revenue in the unrestricted net assets or as additions to temporarily or permanently restricted net assets if specified by the donor.

**Total Return Policy**

Unrestricted revenue is supplemented by the transfer of additional amounts from unrestricted net assets designated – functioning as endowment income to result in a total return from such investments equivalent to between 5% and 6% of the average market value (as defined) of the investments over a five-year period. Additional amounts may be transferred from unrestricted net assets designated – functioning as endowment to undesignated educational and general net assets at the discretion of the Board of Trustees.

**Inventories**

Inventories in the bookstore, campus dining, and stockroom are stated at the lower of cost or market. Cost has been determined using the average-cost method.

**Bond Issuance Costs**

Bond issuance costs represent insurance, issuance and underwriters' costs related to the CEFA Series 2005A and 2005B Bonds (see Note 6). These amounts are amortized over the life of the bonds using the straight-line method, which approximates the effective interest method.

# Occidental College

## Notes to Financial Statements

### June 30, 2007 and 2006

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#### 1. Operations and Summary of Significant Accounting Policies (Continued)

##### **Collections**

Collections, such as rare books and works of art, which were acquired through purchases and contributions since the College's inception, are not recognized as assets on the balance sheets. These collections are held solely for their potential educational value or historical significance. Management has determined that the cost to establish the current market value is deemed to exceed the benefit and therefore the collections were not assigned a value for the purpose of capitalization. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as temporarily or permanently restricted net assets if the assets used to purchase the items have been restricted by donors. Contributed collection items are not reflected in the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset category.

##### **Estates and Trusts**

The College is named beneficiary of various estates in probate. Unless the ultimate amount available for distribution can be determined before the close of the probate proceedings, the College does not record these amounts until the point of asset distribution. Trusts in which the College is named as irrevocable beneficiary, but is not trustee, are recorded as assets held in trust by others when the College is notified by the trustee.

##### **Actuarial Liability**

The College uses the actuarial method of recording life income and annuity contract net assets. Under this method, when a gift is received, cash or investments received are recorded at market value, while the present value of the aggregate annuity obligation is recorded as a liability, based upon life expectancy tables. The remainder is recorded as revenue in the appropriate net asset category. Investment income and some gains are credited, and annuity payments and investment losses are charged to the liability accounts, with periodic adjustments made between the liability and the net assets to record actuarial gains or losses. The actuarial liability is based on the present value of future payments discounted at rates ranging from 3.8% to 11.2% and the 90CM Mortality Table.

##### **Asset Retirement Obligation**

In March of 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" ("FIN 47"), which was issued to provide clarity surrounding the recognition of conditional asset retirement obligations, as referred to in FASB Statement No. 143 "Accounting for Asset Retirement Obligations." FIN 47 defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation does not defer recognition of a liability. The obligation to perform the asset retirement activity is unconditional, and accordingly, a liability should be recognized.

In fiscal year 2006, upon adoption of FIN 47, the College recognized \$2,711,835 as the cumulative effect of a change in accounting principle in the Statement of Activities. As of June 30, 2007, there were no asset retirement costs, net of accumulated depreciation included in property, plant and equipment, and \$2,629,194 of conditional retirement asset obligations are included within other liabilities in the Balance Sheet.

# Occidental College

## Notes to Financial Statements

### June 30, 2007 and 2006

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#### 1. Operations and Summary of Significant Accounting Policies (Continued)

##### **Student Loans**

The College administers a federal student loan program, the Perkins Student Loan program. Loans made under this program have a ten-year repayment period, with interest rates between 3% and 6%. In the event of termination of the program, the loan repayments would be distributed to the federal government and the College on the basis of their relative contributions to the program. It is anticipated that any uncollectible loan balances would be treated in a similar manner.

Determination of the fair value of student loans receivable, which are primarily federally sponsored student loans with U.S. Government mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition, could not be made without incurring excessive costs.

##### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

##### **Tax-Exempt Status**

The College has been notified by federal and state regulatory authorities that it qualifies as a tax-exempt educational institution under current IRS and corresponding state provisions, respectively.

##### **Fair Value of Financial Instruments**

For those financial instruments for which it is practical, the following methods and assumptions are used to estimate fair value:

- Receivables – Amounts receivable under student accounts receivable, contracts and grants receivable, contributions receivable, and trust deeds receivable are carried at cost, less allowing for doubtful accounts, which approximates fair value.
- Long-term debt – This fair value was estimated based upon the discounted amount of future cash outflows based on current rates available to the College for debt of the same remaining maturities.

**Occidental College**  
**Notes to Financial Statements**  
**June 30, 2007 and 2006**

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**1. Operations and Summary of Significant Accounting Policies (Continued)**

**Reclassifications**

In 2007, the College changed some of the functional categories for expenditures in order to more clearly and accurately present how the College expends money. The new category Academic Program includes the previously presented categories, Instruction, Research and Academic Support. Expenditures for the Registrar's office are now included in Academic Program and were previously included in Student Services. The new category Co-curricular Program includes most of the previously presented category, Student Services and also includes room and board expense, the proportion of expenses related to selling books, campus safety, and postal operations. The new category Marketing includes Fundraising (previously included in Institutional Support), Admissions and Financial Aid office expense (previously included in Student Services). Certain reclassifications have been made in the College's 2006 financial statements to conform to the 2007 presentation.

**Redesignation of Net Assets**

Certain amounts previously received from donors have been transferred among net asset categories due to changes in donor designations.

**2. Investments**

The following is a summary of securities and other investments held at June 30, 2007 and 2006:

	<b>June 30, 2007</b>		
	<b>Cost Basis</b>	<b>Fair Value</b>	<b>Carrying Value</b>
Cash and cash equivalents	\$ 40,058,378	\$ 40,058,378	\$ 40,058,378
Debt securities	60,340,326	59,546,590	59,546,590
Equities	166,975,297	226,480,654	226,480,654
Other equity investments	54,636,366	95,092,060	95,092,060
Venture capital	8,111,162	10,531,585	10,531,585
Real estate	<u>2,482,447</u>	<u>2,482,447</u>	<u>2,482,447</u>
	<u>\$ 332,603,976</u>	<u>\$ 434,191,714</u>	<u>\$ 434,191,714</u>
	<b>June 30, 2006</b>		
	<b>Cost Basis</b>	<b>Fair Value</b>	<b>Carrying Value</b>
Cash and cash equivalents	\$ 26,375,091	\$ 26,375,091	\$ 26,375,091
Debt securities	60,475,329	59,182,341	59,182,341
Equities	150,435,238	191,999,995	191,999,995
Other equity investments	56,086,421	84,242,798	84,242,798
Venture capital	272,997	279,754	272,997
Real estate	<u>3,274,447</u>	<u>3,274,447</u>	<u>3,274,447</u>
	<u>\$ 296,919,523</u>	<u>\$ 365,354,426</u>	<u>\$ 365,347,669</u>

**Occidental College**  
**Notes to Financial Statements**  
**June 30, 2007 and 2006**

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**2. Investments (Continued)**

The following schedule summarizes the College's investment return for the years ended June 30, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
Dividends, interest and rents	\$ 13,410,533	\$ 11,024,099
Unrealized gains, net	33,426,437	19,094,448
Realized gains, net	<u>23,048,866</u>	<u>17,776,460</u>
	69,885,836	47,895,007
Less: Investment expense	(3,248,487)	(2,443,659)
Investment income designated for operations	<u>(14,141,594)</u>	<u>(13,101,322)</u>
Realized and unrealized gains, net of allocation to operations and investment expense	<u>\$ 52,495,755</u>	<u>\$ 32,350,026</u>

Where permitted by gift agreement and/or applicable government regulations, investments are pooled. Pooled investments and allocations of pooled investment income are accounted for on a unit-market value method. The following schedule summarizes the College's pooled investments for the years ended June 30, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
Unit-market value at end of year	<u>\$ 446.12</u>	<u>\$ 387.27</u>
<b>Units owned</b>		
Unrestricted		
Funds functioning as endowment	<u>176,298</u>	<u>176,659</u>
Total unrestricted	<u>176,298</u>	<u>176,659</u>
Permanently restricted		
Endowment funds	<u>671,108</u>	<u>638,385</u>
Total permanently restricted	<u>671,108</u>	<u>638,385</u>
Total units	<u>847,406</u>	<u>815,044</u>

At June 30, 2007 and 2006, investments include \$33,948,396 and \$31,535,349, respectively, in securities related to life income and annuity contracts.

**Occidental College**  
**Notes to Financial Statements**  
**June 30, 2007 and 2006**

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**3. Trust Deeds Receivable**

The College held notes receivable from faculty members and administrators totaling approximately \$2,545,527 and \$2,749,000 at June 30, 2007 and 2006, respectively. These notes are included in the trust deeds receivable balance on the Balance Sheet and are recorded at cost. Such loans were issued under the College's housing assistance program, and are collateralized by first or second deeds of trust. Interest rates range from 5.0% to 6.61% with maturities up to 20 years. The College has \$300,000 and \$755,278 of non-interest-bearing loans included in this amount at June 30, 2007 and 2006, respectively.

**4. Contributions Receivable**

Unconditional promises to give are included in the financial statements as contributions receivable and gift revenue in the appropriate net asset category. Contributions are recorded after discounting at the long-term AFR to the present value of future cash flows. The AFR ranged from 2.48% and 4.88% for the years ended June 30, 2007 and 2006. Amortization of the discount is included in gift revenue.

Contributions receivable are expected to be realized as follows:

	<b>2007</b>	<b>2006</b>
In one year or less	\$ 970,398	\$ 1,078,573
Between one year and five years	<u>1,445,351</u>	<u>1,276,752</u>
	2,415,749	2,355,325
Less: Discount	(136,358)	(105,395)
Allowance for uncollectible amounts	<u>(113,970)</u>	<u>(116,176)</u>
Contributions receivable, net	<u>\$ 2,165,421</u>	<u>\$ 2,133,754</u>

Contributions receivable at June 30, 2007 have the following restrictions:

Endowment for programs, activities and scholarships	\$ 1,630,680
Building construction	225,500
Education and general	<u>559,569</u>
Total	<u>\$ 2,415,749</u>



**Occidental College**  
**Notes to Financial Statements**  
**June 30, 2007 and 2006**

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**5. Property and Equipment**

Property and equipment consists of the following at June 30, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
Land and improvements	\$ 9,101,504	\$ 8,900,037
Buildings	111,777,479	109,880,737
Furniture and equipment	32,155,645	29,475,925
Construction-in-progress	<u>27,543,586</u>	<u>4,282,368</u>
	180,578,214	152,539,067
Less: Accumulated depreciation	<u>(74,900,569)</u>	<u>(70,400,188)</u>
Property and equipment, net	<u>\$ 105,677,645</u>	<u>\$ 82,138,879</u>

Depreciation expense for the years ended June 30, 2007 and 2006 was \$4,500,381 and \$4,571,691, respectively.

**6. Bonds Payable**

Bonds payable at June 30, 2007 are summarized as follows:

	<b>Authorized and Issued</b>	<b>Remaining Interest Rates</b>	<b>Remaining Bonds Outstanding</b>	<b>Deposits with Bank Trustees</b>
<b>1979 HUD Dormitory Bonds</b>				
Series D	<u>\$ 419,000</u>	3.00%	<u>\$ 196,000</u>	<u>\$ 150,221</u>
Total				
<b>California Educational Facilities Authority ("CEFA") Revenue Bonds</b>				
Series 2005A & 2005B	<u>70,335,000</u>	3.00 to 5.25%	<u>70,335,000</u>	
Total	<u>\$ 70,754,000</u>		<u>\$ 70,531,000</u>	<u>\$ 150,221</u>

**Occidental College**  
**Notes to Financial Statements**  
**June 30, 2007 and 2006**

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**6. Bonds Payable (Continued)**

Future principal payment requirements on the bonds payable are summarized as follows:

<u>Year Ending June 30,</u>	<b>1979 HUD Dormitory Bonds</b>	<b>Series 2005A &amp; 2005B CEFA Bonds</b>	<b>Total</b>
2008	\$ 12,000	\$ 1,165,000	\$ 1,177,000
2009	13,000	1,195,000	1,208,000
2010	13,000	1,240,000	1,253,000
2011	14,000	1,275,000	1,289,000
2012	14,000	1,325,000	1,339,000
2013 and thereafter	<u>130,000</u>	<u>64,135,000</u>	<u>64,265,000</u>
	<u>\$ 196,000</u>	<u>\$ 70,335,000</u>	<u>\$ 70,531,000</u>

The estimated fair value of the College's bonds payable was approximately \$71,838,808 and \$71,111,733 at June 30, 2007 and 2006, respectively. This fair value was estimated based upon the discounted amount of future cash outflows based on current rates available to the College for debt of the same remaining maturities.

**Dormitory Bonds**

Dormitory bonds are collateralized by mortgages on certain dormitories, net revenues from operations of certain dormitories, and student tuition fees not to exceed \$24,000 in any one year. The bonds are currently redeemable at prices stipulated in the bond indenture agreements.

Under terms of the bond indentures, semiannual payments are required to be paid to a trustee for bond service in amounts sufficient to fund current year principal and interest payments and to maintain deposits with bank trustees at stipulated amounts.

**California Educational Facilities Authority Bonds**

In April 2005, the College issued \$70,335,000 in bonds through the California Educational Facilities Authority ("CEFA"). The College issued serial bonds with fixed-interest rates ranging from 3.00% to 5.25%, payable on April 1 and October 1 through 2036.

The CEFA Series 2005A and 2005B Bonds were used to legally defease the outstanding debt from the College's CEFA Series 1997 Bonds, as well as to provide funds for certain capital projects.

The Series 2005A and 2005B Bonds are collateralized by the pledge of certain revenues of the College including all tuition, room, and board fees, and other fees or charges arising out of general College operations.

The loan agreements for the 2005A and 2005B CEFA issue contain restrictive covenants which include the maintenance of certain minimum enrollment levels as well as maintaining assets available for debt coverage at a specified level.

**Occidental College**  
**Notes to Financial Statements**  
**June 30, 2007 and 2006**

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**7. Net Assets**

Net assets consist of the following at June 30, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
<b>Net assets</b>		
Unrestricted		
Designated – educational and general	\$ 10,230,675	\$ 9,129,913
Designated – functioning as endowment	272,836,821	225,162,403
Designated – student loan funds	3,061,984	3,055,951
Designated – life income and annuity contracts	3,136,730	2,519,173
Designated – renewal and replacement	816,213	388,256
Invested in property and equipment	<u>50,127,297</u>	<u>46,733,790</u>
Total unrestricted net assets	<u>340,209,720</u>	<u>286,989,486</u>
Temporarily restricted		
Contracts	812,493	986,399
Life income and annuity contracts	6,185,483	6,049,199
Property and equipment funds	4,279,484	5,133,402
Contributions receivable, net	714,697	1,251,065
Assets held in trust by others	<u>8,708,131</u>	<u>6,772,142</u>
Total temporarily restricted net assets	<u>20,700,288</u>	<u>20,192,207</u>
Permanently restricted		
Endowment corpus	104,929,388	90,932,437
Life income and annuity contracts	9,302,684	10,303,206
Loan funds	11,549,313	11,459,723
Contributions receivable, net	1,450,724	882,689
Assets held in trust by others	<u>6,212,395</u>	<u>5,816,664</u>
Total permanently restricted net assets	<u>133,444,504</u>	<u>119,394,719</u>
Total net assets	<u>\$ 494,354,512</u>	<u>\$ 426,576,412</u>

**8. Retirement Plan**

All academic and nonacademic employees are eligible to participate in the Teachers Insurance and Annuity Association (“TIAA”) and/or the College Retirement Equity Fund (“CREF”) defined contribution programs. TIAA is a nonprofit, legal reserve life insurance and annuity company and CREF is a nonprofit corporation companion to TIAA.

Benefits are funded by contributions from both the College and participating employees. All contributions are credited to participant accounts, and all College contributions are fully vested. The College’s contributions for the years ended June 30, 2007 and 2006 were approximately \$2,581,000 and \$2,781,000, respectively, which are included as expenditures in the statements of activities.

**Occidental College**  
**Notes to Financial Statements**  
**June 30, 2007 and 2006**

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**9. Fundraising Expenses**

During the years ended June 30, 2007 and 2006, the College incurred fundraising expenses of approximately \$3,151,000 and \$3,180,000, respectively, exclusive of expenses for Alumni Relations and Public Relations.

**10. Commitments and Contingencies**

In connection with certain other equity investments, the College has committed to make additional investments totaling approximately \$16,397,800 over the next several years.

In the normal course of operations, the College is named as a defendant in lawsuits and is subject to periodic examinations by regulatory agencies. After consultation with legal counsel, management is of the opinion that liabilities, if any, arising from such litigation and examinations would not have a material effect on the College's financial position.

Certain federal grants which the College administers and for which it receives reimbursements are subject to audit and final acceptance by federal granting agencies. The amount of expenditures that may be disallowed by the grantor, if any, cannot be determined at this time. The College expects that such amounts, if any, would not have a significant impact on the financial position of the College.

**11. New Accounting Standards**

In September 2006 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*. The statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands the disclosures about fair value measurement. It is effective for financial statements issued for fiscal years beginning after November 15, 2007. The College is currently evaluating the impact of this Statement of the College's financial statements.

**Occidental College**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2007**

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Federal Grantor/Pass-Through Grantor/Program Title	Grant Period	CFDA No.	Expenditures
<b>MAJOR PROGRAMS</b>			
<u>Direct Funding</u>			
<u>Student Financial Aid</u>			
<b>Department of Education</b>			
Academic Competitiveness Grant	7/1/06 - 6/30/07	84.375	\$ 86,850
National SMART Grant	7/1/06 - 6/30/07	84.376	28,000
Federal Pell Grant	7/1/06 - 6/30/07	84.063	896,834
Federal Work Study Program	7/1/06 - 6/30/07	84.033	261,591
Federal Supplemental Educational Opportunity Grant	7/1/06 - 6/30/07	84.007	323,409
Total Student Financial Aid			1,596,684
<u>Research and Development</u>			
<b>National Science Foundation</b>			
Summer Undergraduate Research	3/1/03 - 2/28/07	47.049	16,734
Magnetic Prop. Nickel Borocarbide	6/1/03 - 5/31/07	47.049	67,344
RUI Rapid Variation	7/1/04 - 6/30/07	47.049	36,760
Interfacial Chemistry of the Bacterial Predator	9/1/05 - 8/31/07	47.049	109,870
Dark Matter Drift-II	7/1/06 - 6/30/07	47.049	112,163
RUI Contractile Roots	8/1/05 - 7/31/08	47.074	20,685
RUI/Collabor Batholiths Gen & Evolution of Crust	9/1/03 - 8/31/08	47.050	34,558
USA & Costa Rica Research Experience for Students	1/1/06 - 12/31/08	47.079	18,906
RUI: Microtubule Regulation	4/1/07 - 3/31/10	47.074	21,737
Total National Science Foundation			438,757

The accompanying notes are an integral part of this Schedule.

**Occidental College**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**For the Year Ended June 30, 2007**

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Federal Grantor/Pass-Through Grantor/Program Title	Grant Period	CFDA No.	Expenditures
<b>MAJOR PROGRAMS (Continued)</b>			
<b><u>Direct Funding (Continued)</u></b>			
<b><u>Research and Development (Continued)</u></b>			
<b>Department of Agriculture</b>			
National Farm to School Training Project	9/1/04 - 8/31/06	10.225	\$ 18,026
Total Department of Agriculture			<u>18,026</u>
<b>National Institutes of Health</b>			
Healthy Food, Healthy Schools, Healthy Communities	9/1/03 - 6/30/07	93.113	<u>171,216</u>
Total National Institutes of Health			<u>171,216</u>
<b>National Institutes of Standards and Technology</b>			
NIST Boulder SURF	5/1/06 - 9/15/06	11.609	<u>2,000</u>
Total National Institutes of Standards and Technology			<u>2,000</u>
Total Research and Development			<u>629,999</u>
Total Major Programs			<u>2,226,683</u>

The accompanying notes are an integral part of this Schedule.

**Occidental College**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**For the Year Ended June 30, 2007**

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Federal Grantor/Pass-Through Grantor/Program Title	Grant Period	CFDA No.	Expenditures
<b>NON-MAJOR PROGRAMS</b>			
<b><u>Direct Funding</u></b>			
<b>National Endowment for the Humanities</b>			
Library Assessment Special Collections Preservation	1/1/07 - 6/30/08	45.149	\$ 2,066
Total National Endowment for the Humanities			<u>2,066</u>
<b>Department of Education</b>			
Upward Bound	6/1/04 - 5/31/09	84.334	588,381
Total Department of Education			<u>588,381</u>
Total Non-Research and Development Non-Major Programs - Direct Funding			<u>590,447</u>
<b><u>Pass-Through Funding</u></b>			
<b>Department of Agriculture</b>			
Fresh from the Farm	1/1/06 - 12/31/08	10.225	5,342
Farm to School Regional Workshops	10/1/04 - 9/30/06	10.561	20,822
Fresh from the Farm	10/1/05 - 9/30/06	10.561	18,799
CFSC Farmer to Market	10/1/06 - 9/30/07	10.443	5,671
Total Department of Agriculture			<u>50,634</u>

The accompanying notes are an integral part of this Schedule.

**Occidental College**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**For the Year Ended June 30, 2007**

Federal Grantor/Pass-Through Grantor/Program Title	Grant Period	CFDA No.	Expenditures
<b>NON-MAJOR PROGRAMS (Continued)</b>			
<b><u>Pass-Through Funding (Continued)</u></b>			
<b>Department of Education</b>			
GEAR UP Project Higher Learning Program	9/1/05 - 8/31/11	84.334	\$ 97,102
GEAR UP Project Higher Learning Program at Marshall High School	7/1/00 - 6/30/07	84.334	1,980
GEAR UP Project Higher Learning Program at Eagle Rock High School	10/9/06 - 6/20/07	84.334	13,324
GEAR UP Project Higher Learning Program at Marshall High School	9/5/06 - 8/31/07	84.334	15,083
NSLI STARTALK Pilot Immersion Summer Camp Program	3/19/07 - 6/15/07	12.900	11,950
California State Department of Education Grants	7/1/06 - 6/30/07	84.069A	<u>31,686</u>
Total Department of Education			<u>171,125</u>
Total Non-Research and Development Non-Major Programs - Pass-Through Funding			<u>221,759</u>
Total Non-Major Programs			<u>812,206</u>
Total Federal Awards			<u>\$ 3,038,889</u>

The accompanying notes are an integral part of this Schedule.



**Occidental College**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2007**

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**1. Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal award transactions of Occidental College (the "College") recorded on the accrual basis of accounting.

**Subrecipient**

The College is the subrecipient of federal funds which are reported as expenditures and listed as federal pass-through funds.

**2. Federal Perkins Loans**

For the year ended June 30, 2007, the College advanced loans totaling \$702,842 for the Federal Perkins Loan Program (CFDA Number 84.038). As of June 30, 2007, \$5,372,521 of Federal Perkins Loans advanced by the College were outstanding.

**3. Federal Family Education Loans**

During the year ended June 30, 2007, the College processed \$6,524,106 in new loans under the Federal Family Education Loan Program, CFDA Number 84.032 (which includes Subsidized and Unsubsidized Stafford Loans and Parent Loans for Undergraduate Students).

**Report of Independent Auditors on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

To the Board of Trustees  
Occidental College

We have audited the financial statements of Occidental College (the "College") as of and for the year ended June 30, 2007, and have issued our report thereon dated November 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the College in a separate letter dated November 12, 2007.

This report is intended solely for the information and use of the College's Board of Trustees, Audit Committee, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*PricewaterhouseCoopers LLP*

November 12, 2007

**Report of Independent Auditors on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133**

To the Board of Trustees of  
Occidental College

**Compliance**

We have audited the compliance of Occidental College (the "College") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007, except as described in the second paragraph of this report. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We did not audit the College's compliance with the requirements governing Student Loan Billing and Due Diligence in Collection compliance requirements specified by the Federal Perkins Loan Program and described in the OMB *Circular A-133 Compliance Supplement*. Compliance with these requirements was audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the College's compliance with those requirements, is based solely on the report of the other auditors. Additionally, we did not audit the College's compliance with the requirements governing the reporting requirements over Student Status Confirmation Reports compliance requirements specified by the Federal Family Education Loans Program and described in the OMB *Circular A-133 Compliance Supplement*. Compliance with these requirements was audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the College's compliance with those requirements, is based solely on the report of the other auditors.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the College's compliance with those requirements.

In our opinion, based on our audit and the reports of other auditors, the College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

**Internal Control over Compliance**

The management of the College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, except as noted in the following paragraph, we considered the College's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

We did not consider internal control over compliance with the Student Loan Billing and Due Diligence in Collection compliance requirements specified by Federal Perkins Loan Program and described in the OMB Circular A-133 *Compliance Supplement*. Additionally, we did not consider internal control over compliance with the reporting requirements over Student Status Confirmation Reports specified by the Federal Family Education Loan Program and described in the OMB Circular A-133 *Compliance Supplement*. Internal control over these compliance requirements was considered by the other auditors referred to above; and our report, insofar as it relates to the College's internal control over those compliance requirements, is based solely upon the reports of the other auditors.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Our consideration and the other auditors' consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. Also, the reports of the other auditors did not identify any deficiencies in internal control over compliance that they consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the College's Board of Trustees, Audit Committee, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*PricewaterhouseCoopers LLP*

November 12, 2007

**Occidental College**  
**Independent Auditors' Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2007**

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**Section I – Summary of Auditor’s Results**

*Financial Statements*

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes      X   no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ yes      X   none reported
- Noncompliance material to financial statements noted? \_\_\_\_\_ yes      X   no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ yes      X   no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ yes      X   none reported

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? \_\_\_\_\_ yes      X   no

Identification of major programs:

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>
Various	Student Financial Aid Cluster
Various	Research & Development

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?   X   yes    \_\_\_\_\_ no

**Occidental College  
Independent Auditors' Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2007**

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**Section II – Financial Statement Findings**

No reportable matters.

**Section III – Federal Awards Findings and Questioned Costs**

**Part A – Instances of Non-Compliance Related to the Audit of Major Programs**

PwC noted no findings in the current year.

**Part B – Other Reports**

The College utilizes Affiliated Computer Services, Inc. Education Services (“ACS”) as its institutional servicer to perform the Student Loan Billing and Due Diligence in Collection compliance requirements related to the Perkins loan program. The ACS Audits of Federal Student Financial Assistance Programs Report for the year ended June 30, 2007 includes two findings related to 90-day call procedures (Finding No. 07-1) and the recording of court litigation charges (Finding No. 07-2), as well as ACS management's responses to these findings.

**Section IV – Prior-Year Findings and Questioned Costs**

**Finding 06-1 Title IV Funds Not Returned**

No instances of noncompliance were noted during our FY07 testing.

Additionally, in response to the Department of Education letter dated July 6, 2007 which was received by the College in response to the FY06 Federal Awards Audit Report, we did test the return of these funds without exception.